

ATTACHMENT B

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES INVESTOR PROTECTION
CORPORATION,

Plaintiff-Applicant,

v.

BERNARD L. MADOFF INVESTMENT
SECURITIES LLC,

Defendant.

In re:

BERNARD L. MADOFF,

Debtor.

IRVING H. PICARD, Trustee for the Liquidation of
Bernard L. Madoff Investment Securities LLC,

Plaintiff,

v.

PHILIP F. PALMEDO,

Defendant.

Adv. Pro. No. 08-01789 (SMB)

SIPA LIQUIDATION

(Substantively Consolidated)

Adv. Pro. No. 10-04749 (SMB)

**EXPERT REPORT OF
MATTHEW B. GREENBLATT, CPA/CFF, CFE
SENIOR MANAGING DIRECTOR
FTI CONSULTING, INC.**

**PRINCIPAL BALANCE CALCULATION
AS APPLIED TO
PHILIP F. PALMEDO**

June 19, 2019

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I. INTRODUCTION

1. As described in my Expert Report regarding the Methodology for the Principal Balance Calculation dated November 15, 2012 (the “Principal Balance Calculation Report”), FTI Consulting, Inc. (“FTI”) was retained by Baker & Hostetler LLP, on behalf of the Trustee, to, among other things, reconstruct the books and records of BLMIS. I am a Senior Managing Director at FTI. Additional information regarding my professional experience and recent testimony is included in my Curriculum Vitae annexed hereto as **Exhibit 1**.

2. As part of FTI’s reconstruction of the books and records of BLMIS, chronological listings of all cash and principal transactions for every BLMIS customer account were compiled. These chronological listings provided the foundation to calculate every BLMIS account holder’s principal balance on a daily basis for all dates from April 1, 1981 through December 11, 2008 (the “Principal Balance Calculation”).

3. The Principal Balance Calculation Report explains the methodology of the Principal Balance Calculation and describes the relevant documents and data that were maintained by BLMIS. Accordingly, this report should be read in conjunction with the Principal Balance Calculation Report.¹

4. This report specifically applies the methodology of the Principal Balance Calculation to the BLMIS account associated with Philip F. Palmedo (the “Defendant”), in the above-captioned litigation, and provides a description of the cash and principal activity in the BLMIS accounts impacting the Principal Balance Calculation for BLMIS Account 1CM142 (the “Palmedo Account”).

5. This report has been prepared in connection with the above-captioned litigation and is to be used only for the specific purposes of this lawsuit. It is not to be used for any other purpose without the express written consent of FTI. If called upon to testify in this matter, I intend to provide testimony regarding my analyses and conclusions consistent with this report. FTI is being compensated at a rate of \$670 per hour for my professional time incurred in performing the work necessary to prepare this report. FTI’s fees are not contingent on the conclusions reached in this report or the outcome of the above-captioned litigation.

¹ The opinions that I render in the Principal Balance Calculation Report, the documents that I considered in connection with that Report, and the accompanying Exhibits to that Report, are all incorporated by reference. All capitalized terms not defined herein shall have the meaning ascribed to them in the Principal Balance Calculation Report.

6. The documents and data that I considered in connection with this report are listed in **Exhibit 2**. I reserve the right to supplement my report based on any additional documents or information received.

II. DESCRIPTION OF ACTIVITY IN THE PALMEDO ACCOUNT AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION

7. The Palmedo Account was opened with BLMIS in January 1993. Throughout its account history, the Palmedo Account had a total of seven cash deposit and withdrawal transactions. In addition to these cash transactions, there was one inter-account transfer from BLMIS Account 1C0019 into the Palmedo Account.

8. The cash deposit and withdrawal transactions, as well as the one inter-account transfer, all impacted the Principal Balance Calculation for the Palmedo Account. Each of these transactions was reflected on the Customer Statements between January 1993 and November 2008.

9. As described in the Principal Balance Calculation Report, the amount of the funds transferred from one BLMIS account to another BLMIS account (an inter-account transfer²) is limited to the amount of principal available in the *transferor's* account at the time of the transfer. Only the portion of the inter-account transfers between BLMIS accounts for which the transferor had actual principal could be transferred. As such, all inter-account transfers have been analyzed and the transferee's account has been credited only up to the amount of principal available in the transferor's account on the day of the inter-account transfer.

10. Thus, in order to perform the Principal Balance Calculation for the Palmedo Account, BLMIS Account 1C0019 was analyzed to determine the amount of principal available in that account that could be transferred into the Palmedo Account.

11. **Exhibit 3** to this report (Summary Schedule of Cash and Principal Activity in the Palmedo Account) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for the Palmedo Account.

² An inter-account transfer is defined as a non-cash transaction between BLMIS customer accounts in which no new funds entered or left BLMIS, but rather a book entry occurred at BLMIS to internally adjust the balances of those accounts. These book entries did not reflect any transfers of cash because there was no actual movement of cash. Rather, these inter-account transfers merely changed reported value in the purported "equity" maintained in the BLMIS customers' accounts. (See Principal Balance Calculation Report, ¶¶17, 27-28, 32-34.)

12. **Exhibits 4A and 4B** to this report provide detailed schedules for the Principal Balance Calculation for BLMIS Account 1C0019 and the Palmedo Account, respectively.

A. Description of the Inter-Account Transfer From BLMIS Account 1C0019 Into the Palmedo Account

13. The Palmedo Account was opened with an inter-account transfer from BLMIS Account 1C0019. In this instance, the transferor account, BLMIS Account 1C0019, was a pooled account where Madoff commingled the funds of certain investors into one BLMIS customer account. As described more fully in the Principal Balance Calculation Report, prior to 1993, Madoff commingled the funds of a limited number of individuals into several pooled accounts. FTI performed further investigation and analysis to calculate the principal attributable to each account on a customer-by-customer basis consistent with the BLMIS documents and/or the Trustee's counsel's determination. (See Principal Balance Calculation Report, ¶28 n.9.) As reflected on the Customer Statements, on January 4, 1993, the Palmedo Account was opened with an inter-account transfer from BLMIS Account 1C0019—a pooled account—in the amount of \$192,271.

14. Based upon available information, however, the Palmedo Account was credited with \$150,000 of principal from this inter-account transfer on January 4, 1993. The Cohmad Cash Database identified the amount of \$150,253 credited to the Palmedo Account. The Cohmad Cash Database was a database that monitored the amounts deposited and withdrawn by certain investors who were referred to BLMIS by employees of Cohmad Securities Corporation. (See **Exhibit 5** for an excerpt of the Cohmad Cash Database for the Palmedo Account.) Documents produced to the Trustee by the Defendant, however, confirmed that only a principal amount of \$150,000 was deposited by the Defendant into the Palmedo Account. Specifically, a June 19, 1991 letter confirming the Defendant's deposit of \$100,000 and a December 9, 1991 letter confirming the Defendant's deposit of \$50,000. See **PALMEDO 000020, PALMEDO 000022** and **PALMEDO 000016**, respectively.

15. Therefore, the amount included in the Principal Balance Calculation as principal transferred out of BLMIS Account 1C0019 and into the Palmedo Account was limited to the available principal amount of \$150,000. (See **Exhibit 4A** for the Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1C0019; see also **Exhibit 4B** for the Detailed Schedule for the Principal Balance Calculation for the Palmedo Account.)

B. Description of the Inter-Account Transfer and Cash Deposits Into the Palmedo Account

16. As discussed above, on January 4, 1993, the Palmedo Account was opened with an inter-account transfer of \$150,000 of principal from BLMIS Account 1C0019. (See **Exhibits 4A** and **4B**.)

17. Subsequent to this initial inter-account transfer, there were two cash deposits via checks into the Palmedo Account in the aggregate amount of \$75,000, all representing principal.

18. In sum, this one inter-account transfer and two cash deposits provided the Palmedo Account with \$225,000 of principal. (See **Exhibit 3**.)

C. Description of the Cash Withdrawals Out of the Palmedo Account

19. Between January 4, 1993 and December 11, 2008, the Palmedo Account reflected a total of five cash withdrawals totaling \$1,010,000.

20. The Principal Balance Calculation for the Palmedo Account demonstrates that between January 4, 1993 and December 11, 2008, \$1,010,000 was withdrawn from BLMIS, which consisted of \$225,000 of principal and an additional \$785,000 of funds withdrawn in excess of principal, representing fictitious profits. Within the two-year period prior to December 11, 2008, \$600,000 of fictitious profits was withdrawn from the Palmedo Account. (See **Exhibit 4B**.)

III. SIGNATURE AND RIGHT TO MODIFY

21. This report and the exhibits contained herein present my findings and the bases thereof. To the extent that any additional information is produced by any party, I reserve the right to incorporate such additional information into my report or to modify my report as necessary.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Matthew B. Greenblatt", is written over a horizontal line.

Matthew B. Greenblatt, CPA/CFF, CFE
Senior Managing Director
FTI Consulting, Inc.

Dated: June 19, 2019

IV. LIST OF EXHIBITS

Exhibit 1 – Curriculum Vitae and Testimony of Matthew B. Greenblatt

Exhibit 2 – Documents Considered

Exhibit 3 – Summary Schedule of Cash and Principal Activity in the Palmedo Account

Exhibit 4A – Detailed Schedule for the Principal Balance Calculation for BLMIS Account
1C0019

Exhibit 4B – Detailed Schedule for the Principal Balance Calculation for the Palmedo Account

Exhibit 5 – Excerpt of the Cohmad Cash Database for the Palmedo Account